

Qualifying distributions; property converted from nonexempt to exempt use; conversion date. The correct conversion date of real property converted by a private operating foundation from nonexempt to exempt uses, for purposes of treating the conversion as a qualifying distribution under section 53.4942(a)-3(a)(5) of the regulations, is the date the foundation adopts and immediately proceeds to implement a plan for the exempt use of the property, even though the actual conversion is not completed until the following year.

Advice has been requested as to the correct conversion date of property converted from nonexempt to exempt uses in the manner described below, for purposes of treating the conversion as a qualifying distribution as provided for in section 53.4942(a)-3(a)(5) of the Foundation Excise Tax Regulations.

The organization is a private operating foundation within the meaning of section 4942(j)(3) of the Internal Revenue Code of 1954. Its sole exempt activity is the operation of a residential facility for underprivileged persons. The organization owns farmland, which surrounds its residential facility on three sides, and until 1974 engaged in farming operations on this land. It was decided at that time that the property would be converted to use as a landscaped area surrounding the residential facility, and for recreational use by its residents. A detailed plan for the conversion, including a definite timetable for its implementation, was adopted by the organization on July 1, 1974.

In accordance with this plan, farming operations ceased in July of 1974, but the completion of the conversion of the property to its new uses, which entailed the sale of farm equipment, the demolition of farm buildings, and landscaping of the land, although largely accomplished in 1974, was not completed until the middle of 1975.

Section 53.4942(a)-3(a)(5) of the regulations provides that when an asset not used (or held for use) directly in carrying out one or more purposes described in section 170(c)(1) or (2)(B) of the Code is subsequently converted to such a use, the foundation may treat such conversion as a qualifying distribution. The amount of such qualifying distribution shall be the fair market value of the converted asset as of the date of its conversion. For purposes of the preceding sentence, fair market value shall be determined by making a valuation of the converted asset as of the date of its conversion.

Although it was not until the middle of 1975 that the property was actually usable for exempt purposes, the organization had on July 1, 1974, adopted a plan for the exempt use of the property and immediately proceeded to implement it. Accordingly, under the circumstances described, as the property was on July 1, 1974, effectively committed to exempt use, that date is the date

of conversion of the property to exempt use for purposes of treating the conversion as a qualifying